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Recipients

All DME Members

From

Sarah Watts, Chief Compliance Officer

Category

Business Development

Summary of Content

Transfer of title to oil under the Dubai Mercantile Exchange Limited (DME) Oman Crude Oil Futures Contract

This Notice 07-06 sets out the Exchange's views as to the transfer of title to oil under the DME Oman Crude Oil Futures Contract. Terms used in this Notice that are defined in the Exchange's Rules shall have the meanings given to them in the Rules.

1. The Oman Contract

- 1.1 The DME Oman Crude Oil Futures Contract (the **Oman Contract**) sets out the terms that apply to contracts bought or sold on the Exchange for future delivery of Oman crude oil of normal export quality. It is governed by English law.
- 1.2 The Oman Contract sets out the terms applicable to contracts on the terms of the Oman Contract between:
 - (a) a Clearing Member and the Clearing House, which is established under the NYMEX, Inc. rules; and
 - (b) a contract between a Clearing Member and its customer, which is established under Rule 6.25 of the DME Rules.
- 1.3 If a Clearing Member leaves a long or short position open to expiry of trading, it will usually be to allow its customer (a **Selling Customer** or **Buying Customer** as the case may be) to go to delivery.
- 1.4 The Oman Contract provides for matching delivery counterparties¹. Where delivery counterparties have been matched this will typically result in:
 - (a) a contract where the Selling Customer sells oil to the Seller Clearing Member;

¹ See Rule 10.11 of the DME Rules.

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- (b) a contract where the Seller Clearing Member sells oil to the Clearing House;
 - (c) a contract where the Clearing House sells oil to the Buyer Clearing Member; and
 - (d) a contract where the Buyer Clearing Member sells oil to the Buying Customer.

Each such party acts as principal.

1.5 In obliging Clearing Members to deliver oil as principal the DME Oman Crude Oil Futures contract is consistent with the plain words of many other NYMEX contracts. These include the NYMEX Light "Sweet" Crude Oil Futures Contract and the NYMEX New York Harbour No.2 Heating Oil Contract². This approach is also consistent with futures trading arrangements on other commodities exchanges.

2 Transfer of title

2.1 The Oman Contract is an F.O.B. contract under which the seller (including a Selling Customer) delivers the goods at the port of shipment on board the buyer's (including a Buying Customer's) appointed vessel³. Under the Oman Contract, the risk and property in the Oil delivered shall pass to from one party in the chain to the next as the oil passes the vessel's permanent hose connection⁴.

2.2 Thus, in the typical scenario described at 1.4, title to oil will pass simultaneously from Selling Customer to the Seller Clearing Member to the Clearing House to the Buyer Clearing Member to the Buying Customer. In practice:

- (a) only the Selling Customer and Buying Customer will take any action to make or take delivery;
- (b) each of the other parties will only receive property in the oil as it passes that property to another party.

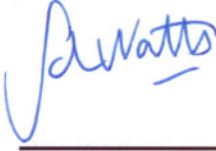
2.3 The Oman Contract treats demurrage claims and other obligations of a seller to pay any additional delivery fees or demurrage in relation to a delayed delivery differently from other obligations under the Oman Contract. These obligations are not borne by the Clearing House but are owed by a Clearing Member to another Clearing Member. In case of a demurrage claim under the Oman Contract caused by the Selling Customer, the Buying Customer's claim would be against the Buyer Clearing Member. The Buyer Clearing Member's claim would be against the Seller Clearing Member and the Seller Clearing Member's claim would be against the Selling Customer.

² These NYMEX contracts and most others are governed by New York law.

³ See Rules 10.10 to 10.12 and the Appendix A to Chapter 10 of the Rules for details of the physical delivery obligations.

⁴ See Rule 10.12(E) of the DME Rules.

Signed



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